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Centre

# THE UPRISING OF THE MARGINALISED

## A SOCIO-ECONOMIC PERSPECTIVE OF THE SYRIAN UPRISING

Dr Shamel Azmeh



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Dr Shamel Azmeh

## About the Author

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## Abstract

More than three years after the outbreak of protests in a number of Arab countries, the role of socio-economic factors in these events is attracting more attention. One of the cases that needs more research is Syria. More than three years into the Syrian uprising, the socio-economic roots of the protest movement that became one of the bloodiest civil conflicts in the history of the Middle East need to be examined. While it has been observed that the Syrian uprising, contrary to some 'Arab Spring' countries, has been an uprising of more marginalised social groups with a strong role played by poorer segments in the society, particularly rural and rural-to-urban migrants, the socio-economic explanation for this is still underdeveloped. This paper aims at contributing to a better understanding of this issue by examining the political and socio-economic compromise that underlined the rule of the Ba'th party in Syria for four decades and unpacking how a combination of internal and external shifts that started in the 1990s and intensified in the 2000s led to the erosion of this compromise, providing the background to the events that began in 2011.

## Introduction

More than three years after the outbreak of protests in a number of Arab countries, the role of socio-economic factors in these events is attracting growing attention. The role of issues such as population growth, climate change, global and regional economic shifts and unemployment in triggering and expanding the protest movement is being examined (Johnstone and Mazo 2011; Campante and Chor 2012; Kuhn 2012; Diwan 2013; Moore 2013; Joffé 2011; Ansani and Daniele 2012). Nonetheless, more work is still needed to unpack the political and socio-economic dynamics that underlined these processes of change. In particular, more work is needed to compare the different political and socio-economic contexts of different Arab countries and how this led, and is leading, to different trajectories of political change.

Syria stands out as one of the more complex cases. The outbreak of protests in the southern Syrian province of Dar'a, the expansion of this movement to other regions in Syria, and the subsequent transformation of this uprising into one of the bloodiest conflicts in the recent history of the region have raised important questions about this very rapid shift in a country that was perceived to be one of the 'quietest' in the region. While the dominant narrative on the Syrian case has moved quickly into a rather convenient story of sectarian conflict, a number of studies have started to highlight the role of different social, economic, and environmental factors in creating the background to the uprising (de Châtel 2014; Haddad 2012; Gleick 2014; Goulden 2011; de Elvira and Zintl 2014). This is particularly important as it has been observed that, contrary to some other 'Arab Spring' cases, particularly Egypt where middle income groups played an instrumental role in the movement, the Syrian uprising has taken place predominantly in poorer, marginalised neighbourhoods and in areas with high concentrations of rural migrants. Middle income areas remained relatively quiet, leading some to call the Syrian uprising a 'rural and rurban' uprising (de Châtel 2014).

This paper aims at contributing to a better understanding of the role of social and economic factors in the build-up to the protests that began in 2011. To achieve this, it is necessary to examine the historical evolution of the Ba'th political regime in Syria and the political socio-economic compromise that underpinned its ability to rule one of the previously most politically unstable countries in the Middle East for more than three decades. This political and socio-economic formula was, however, challenged by a number of internal and external shifts that started in the 1990s and intensified in the 2000s. The response of the 'new' political and economic elite in the country, particularly in the 2000s, was to attempt to change this formula by dismantling some of its core internal elements and also by seeking integration in the global economy as a way of solving the structural economic problems facing the country. This was manifested in a number of policies that gradually limited some of the key components of the old economic regime, such as energy subsidies, agricultural subsidies, and public sector employment, and sought to achieve growth by re-linking Syria with regional and global flows of production, trade, and investment in the hope of fostering local economic development and of re-establishing Syria as an important economic regional hub.

The choice of this solution reflected the shifts in the political, economic, and business elite in Syria and the rise of a new elite that was strongly connected to the regime and that had a completely different outlook on the local economy and on its position in the regional and global economy. For this new elite, integration in the global economy was not only a way of addressing the structural economic problems facing Syria but, perhaps more importantly, a way of maximizing self-benefit by capturing a share of regional trade and financial flows. Nonetheless, the way these policies were carried out and their failure to address Syria's key social and economic issues had a major negative impact on key social groups in the country that had in the past played a vital role in maintaining Ba'th rule. The erosion of this political acceptance, not necessarily support, by these groups of the political formula on which the regime in Syria was based provided the background to the events that began in 2011 and expanded in the subsequent years.

A qualification is warranted here. As is always the case in broader political and historical shifts, establishing a clear line of causality is extremely difficult. This paper, thus, does not claim that the social and economic shifts that took place in the two decades prior to 2011 were the direct reason behind the protests. In fact, the protests in Syria showed a strong snowballing element through the way the brutal crackdown on initially small protests contributed to the rapid growth in the size of these protests and in the complete collapse of the government's political legitimacy. Furthermore, by analysing the role of socio-economic factors and the way they contributed to the uprising, I do not discard the influence of the simple political aspirations of Syrian citizens in leading to the uprising and I do not aim to portray the one-party, and increasingly one-family, rule over the previous four decades as a natural state of affairs that was disrupted by economic and social dynamics. While these political aspirations remain in my view a major factor in these events, this paper aims at shedding light on the socio-economic side of the story. The rest of the paper unfolds as follows. Section two provides a brief historical discussion of the political economy of Syria and Ba'th rule. Section three discusses the shifts that began in the 1990s and intensified in the 2000s, and the regime's solution to these problems. Section four discusses the socio-economic character of the uprising in 2011. The final section provides some concluding observations.

## A Brief Historical Perspective of the Political Economy of Ba'th Rule

The contemporary economic geography of Syria and the position of the country in the world economy can be traced back to the processes of the integration of Syria and the Levant region into the European-centred world economy. This began when the region was still part of the Ottoman Empire and was later consolidated with the Levant becoming directly controlled by Britain and France (Reilly 1993). A key shift in this period that had a long-lasting impact on the political economy of Syria was the redrawing of the political maps of the region, particularly by Britain and France in the early twentieth century. This has fundamentally transformed the economic geography of Syria with the two key economic and trading centres in the country – Damascus and Aleppo – which were also important regional trading and production hubs, losing part of their 'Ottoman' economic hinterland (Palestine in the case of Damascus and Iraq and south-east Turkey in the case of Aleppo) and some of their traditional land and sea shipping routes (Khoury 1988; Khoury 1984). This was reflected in the post-independence political landscape in Syria in which ideologies that promoted larger political-economic units maintained a dominant role in Syrian politics and enjoyed the support of large segments of the society, including key economic and commercial interests. Strong support for wider Arab unity projects and the perception of the Palestinian issue as an almost internal Syrian issue were examples of this (Khoury 1985; Kienle 1995).

Upon independence from France in 1946, the Syrian economy was a largely traditional economy that was highly reliant on the agricultural sector. This sector was highly traditional with very unequal distribution of land ownership (Keilany 1980). The industrial sector was small and consisted of small-scale projects in textile, food processing, and other light manufacturing, although the sector experienced some growth in the later periods of the French mandate and in the 1940s and the 1950s (Perthes 1992; Khoury 1988). The economy was largely a traditional liberal economy with the weak state institutions playing a limited role with the exception of infrastructure (Ahsan 1984). Despite some integration in European-centred production networks, provincial and regional trade remained the key economic activity for the two major Syrian economic centres of Damascus and Aleppo through the later periods of Ottoman rule and then French rule (Reilly 1993; Reilly 1992; Tabak 1988; Shields 1991).

This provided the background for the rapid political and economic shifts Syrian experienced in the subsequent decades. In particular, there was a favourable environment for the rise of political parties that championed a combined socialist, state-led road to development through land reform and large industrial projects and who championed the expansion of the economic hinterland of Syria through wider regional or pan-Arab political and economic integration. The rise of the Ba'th party needs to be understood in this context (Keilany 1973; Galvani 1974). The party combined a socialist ideology with a strong focus on land reform and a state-led developmental strategy through free education, large industrial projects and state intervention in trade and industry, with a pan-Arab ideology that championed political and economic integration between Arab states. Contrary to other political parties at the time, although the Ba'th emerged and was initially more popular with urban, well-educated, middle income groups, some of the early leaders of the party were successful in reaching out to larger segments of the population, including historically marginalised rural areas.

This enabled the party to enjoy growing influence in some of the expanding state institutions, particularly the military where a large number of officers were from rural or peripheral urban backgrounds (Devlin 1991).

The decline of the political and economic role of the old bourgeoisie and the rise of these new social groups gathered pace during the union with Egypt in which land reforms and nationalisation of industry took place. Following the breakup of the union in 1961, there was a brief return to nominally civilian rule, but the military establishment maintained its grip on politics. This came to an end in March 1963 when the Ba'th party captured power directly through a military coup. Following this, a secret military committee within the party controlled power with most of its members coming from rural and historically marginalised communities. This represented a major social and political transformation, notwithstanding the fact that many of these officers were not from the poorest parts of these communities but from landowning families in these regions (Galvani 1974). Nonetheless, the transformations of the 1940s, 1950s and the early 1960s saw these communities in general moving from marginalisation and working as a waged landless labour force in a largely feudal agricultural system into the rulers of the country with the military providing the main vehicle of this shift.

Following the military coup of 1963, internal conflicts with the Ba'th party dominated the Syrian political scene. One of the key outcomes of these conflicts and of the shifts in the party during the union with Egypt was the emergence of a new generation in the party that some scholars have called the neo-Ba'th (or the radical Ba'th) which was considered to be more radical both in regard to internal economic policies and to relationships with other countries (Ahsan 1984; Longuenesse 1979). Despite some debates on the extent of this (see for instance Seymour 1970), the neo-Ba'th rule, particularly following another internal military coup in February 1966, is generally considered to have adopted a stronger interpretation of socialism than the previous generation. This was seen through a stronger rhetoric of class struggle, weaker ties with what the party considered to be reactionary Arab states, particularly the oil-producing Gulf states, and a number of radical economic policies that targeted what remained of the power of the old economic elites, including urban merchants and industrialists. This was done through widespread land-reforms (some of which were adopted earlier but not implemented), nationalisation of private enterprises, prohibition of oil concessions to foreign companies, tax reforms, and restrictions on foreign currency (Kerr 1972).

The economic pressure that emerged from these policies, the internal turmoil in the party, the further alienation of some still influential traditional elites in the country, the impact of deteriorating relations with neighbouring Arab countries, and the impact of the 1967 defeat to Israel all contributed to the rapid weakening and growing unpopularity of this new faction in the party and the entire Ba'th regime. A conflict between Salah Jadid, who was the strongest figure in this period and the main face of the more radical Ba'th, and Hafez Assad who became the strongest figure on the military side of the party, led to the coup d'état that brought Assad to power in 1970 in what the Assad regime later called the 'Corrective Movement'.

Hafez Assad aimed at representing a more moderate face of the Ba'th. While he maintained the overall position of Syria on issues such as the Arab-Israeli conflict and the alliance with the Soviet Union, he adopted a more cautious approach by generally respecting the 'rules of the game' of regional politics. Assad quickly restored political and economic relations with other Arab countries, including the Gulf states despised by the Ba'th. This was reflected in growing economic, trade, and aid relations with the region. Internally, while Assad did not reverse earlier economic and social policies adopted by the Ba'th, he again offered a more nuanced approach to the 'class struggle' by providing reassurances to the older merchant and industrialist elites and by promoting a 'pluralist' economic model in which the state and the private sector drive development jointly (Yodfat 1971).

As early as 1971, he highlighted the importance of the private sector, stating that 'the state, which encourages individual initiative in the private sector, will give it the opportunity to work in a constructive and productive manner in the interest of the individual as well as the society' (cited in Longuenesse 1979). Writing in 1972, only two years after Assad emerged as the strongman of Syria, Malcolm Kerr argued that Assad 'has represented liberalization, moderation, normalization, a search for consensus, without changing Syria's basic institutions and policies. In so doing, it is just possible that he has given Syria the basis for political stability that has eluded it for the past quarter of a century' (p. 701).

This indeed proved to be the case, perhaps to a degree no one could have envisioned at that time. In a country that was considered to be one of the most politically unstable in the region, the internal-external political economic formula Assad adopted enabled him to consolidate his power and to rule the country for three decades before arranging for power to be handed to his son after his death. Internally, this formula consisted of a large public sector with major investments in infrastructure and industry, a space for the private sector to maintain and expand its economic interests, and, importantly for traditional elites, less focus on redistributive economic policies. While Syria maintained nominally one of the most redistributive tax systems in the region with very high rates of income tax, especially on high earning groups, the enforcement of this system was very lax, leading to a limited private contribution to overall state revenues. To cover the generally large public expenditures the new system demanded, the state relied mainly on the contribution of state-owned enterprises, particularly those in resource-based activities, the energy sector, aid from Arab countries and from the Soviet Union.

Trade policy was an important element in this as the import-substitution inspired trade regime that was adopted suited the needs of the small private sector as it ensured limited competition in the domestic market. Socially, Assad reconciled the more radical secularist tendencies of the Ba'th party with the traditional religious establishment by providing some space for the latter to work in social and cultural activities although an explicit political role was not tolerated. This space expanded in the 1980 and 1990s, and also following the transition of power to his son Bashar in 2000. Externally, while maintaining the overall position of Syria in the region, Assad resumed political and economic links with most Arab states and made Syria a 'player' on the Middle East political map again and maintained strong links with the Soviet Union. This allowed a degree of trade, with the private sector resuming its role in regional trade and the Soviet Union providing a market for the exports from state-owned enterprises, often through state-to-state deals.

This internal-external formula that Assad adopted, whilst not ideal for many social groups in the country, was generally acceptable for enough segments to allow Assad to maintain his grip on power. These included large sections of the old elite who viewed Assad as the lesser of two evils as they felt that he had ended the direct assault on their position in society that they experienced over the previous two decades. This acceptance was also clearly enhanced by the extremely high cost of dissent. A brutal military-security apparatus provided the stick to protect the regime as illustrated by its response in Hama in 1982. This allowed Assad to consolidate his grip on power in the following decades, not only by showing that his regime would not tolerate any dissent, but also by showing that influential social groups in the country found the compromise offered by Assad preferable to the unknown alternatives. The role of the Damascus business community in backing Assad in the 1980s was an example of this.

## The New 'Syrian Regime' and the Political Economy of Integration: Searching for a Place in a New World

This link between the military/security branch of the government which was dominated by officers from rural and poor backgrounds and some segments of the business community, especially the Damascus-based private sector that Assad the father encouraged, was strengthened in the late 1980s and the 1990s. By this point, joint business projects and even family relationships between these two social groups were becoming very common. The military/security side of the relationship provided access to the state, protection, tax avoidance, and state concessions at preferential rates, while the private sector provided the know-how in management, trade, and investments, in addition to the 'public face' of many of these projects as the early generation of regime military and security figures did not want to be seen conducting business publicly. This relationship gradually grew into an alliance linking the two and by the 1990s provided what some authors considered to be the key backbone of the Syrian regime (Haddad 2012).

By the 1990s, what was left of socialism was a large role for the state in the economy, free basic services, especially education and healthcare, a system of subsidies for basic food products, energy subsidies, input subsidies for the agricultural sector, and a system of creating jobs for a rapidly-growing population through the public sector and state-owned enterprises. The regime maintained these policies for reasons of 'social stability' rather than economic advantage. Whilst such policies helped to achieve improvements in a number of social and human development indicators and in limiting poverty, very little transformation in the structure of the Syrian economy or in its regional or global position took place in this period. The economy remained largely dependent on a number of extractive activities, agriculture and small-scale low technology manufacturing activities that benefitted from trade protectionism to maintain its position in the domestic market, in addition to some exports to regional markets. In 1998, for instance, mineral fuels and crude materials accounted for 70% of total Syrian exports (UN Comtrade).

In a number of ways, the Syrian economic system in the 1990s was increasingly incorporating elements of the economic and social system in the Gulf states through a highly resource-based trade profile, a central role for the state in providing key economic and social subsidies, and low taxation on private activities, in return for complete control over politics. Such a system was clearly unsustainable and needed external funding to be maintained. During the 1990s and the early 2000s, oil revenues were the key funder of this economic model. By the early 2000s, oil revenues contributed around 20% of GDP, two-thirds of total exports, and half of government revenues. In 2001, the non-oil budget balance was 16.1% of Syria's GDP.<sup>1</sup>

Contrary to the Gulf states, which are able to sustain such a model for a relatively long period of time, Syrian oil reserves were limited and could not sustain the growing cost of this system (Figure 1). Syria was rapidly becoming an oil-based economy and an oil-based political system but without oil. In the 1990s and early 2000s, two key factors were beginning to

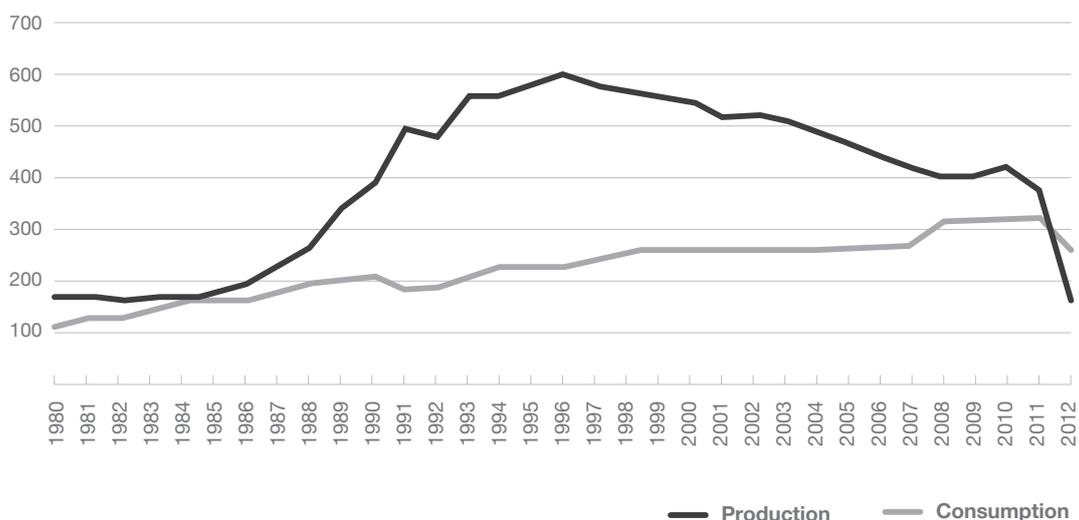
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<sup>1</sup> Syrian Arab Republic: 2005 Article IV Consultation - Staff Report; and Public Information Notice on the Executive Board Discussion, International Monetary Fund, Washington, DC., 2005.

present serious challenges to the political and socio-economic model in Syria. The cost of the economic-social system that underlined the political dominance of the regime was going up rapidly. The costs of food and energy subsidies and of free basic services were increasing rapidly, reflecting the fast growth in the country's population from less than ten million in 1980 to 21 million by 2010 (World Development Indicators). Rural-urban migration was going up reflecting the inability of the agricultural sector to absorb the growing labour force in rural areas. Employment in the public sector and state-owned enterprises was incapable of meeting the needs of the rapidly growing labour force. Unemployment, particularly youth unemployment, increased relatively rapidly in the 1990s and the early 2000s (Huitfeldt and Kabbani 2005). Total employment, which stood at 4% to 7% in the 1980s and early 1990s, increased to a range of 8% to 11% in the late 1990s and 2000s, while youth unemployment was between 16% and 28% in the 2000s (World Development Indicators).

The failure to change the economy structurally by moving into higher value added manufacturing and agricultural activities and the absence of the political willingness or legitimacy to increase tax collection meant that oil remained the key financier of Syria's socio-economic system. As oil surpluses continued to decline, reflecting stagnant production and growing local consumption, Syria was clearly moving from being a net oil exporter to an importer.

**Figure One: Syria Oil Production and Consumption, Thousand Barrels per Day**



Source: US Energy Information Administration (EIA)

The regime's initial solution to this was a limited move to liberalise the economy in the 1990s. New investment laws that offered tax holidays and other incentives for private investors were adopted leading to a short lived increase in private investments which reached about 18% of GDP in 1994 before declining to 8-10% of GDP in 2000-02.<sup>2</sup> This, however, contributed little to solving the structural imbalances of this economic model. By the time Bashar Al-Assad took power in 2000, it was becoming increasingly clear that major changes to his father's political socio-economic formula would be needed to maintain his rule. In retrospect, it is safe to say that the only real solution to this would have been a gradual political-economic opening up of the system to bring other actors into the political and economic processes in the country.

This would have required a move away from a regime that was increasingly becoming highly dominated politically and economically by a very small number of regime insiders and their business partners, in addition to a strong campaign against 'big corruption' including key regime businessmen. This would have also meant strong support for the industrial and agricultural sectors to upgrade operations and to expand exports, accompanied by a gradual move to increase the low taxation on the private sector. These economic reforms, however, would have been impossible to achieve without political reforms that could first provide state institutions with a degree of legitimacy in order to be able to collect taxes and combat tax evasion from both the regime business network that paid minimal taxes and also the rest of the population who saw low taxes as part of the political-economic deal with the regime. Such political reforms would have also been needed to alleviate the social losses incurred by the end of the oil period and to distribute these losses in a relatively fair way.

The regime, however, opted against this solution as it would have represented a threat to its political and economic dominance. Instead, it opted toward even deeper political and economic consolidation of power accompanied by a series of economic reforms that it hoped would create new areas of growth and help address the structural challenges to the Syrian economy. In the 2000s, the level of 'crony capitalism' in the country reached a new height. This essentially ended the former alliance between key regime figures and segments of the business community as these two groups were practically merged into one small but all-powerful political-economic ruling class.

To this new group, the solution to the economic problems was to change the political-economic compromise that underlined its rule for more than three decades and to break away from the social base that supported or accepted the regime in the past. Internally, this meant that all the costs of adjustment to the end of oil era would fall on the poorer segments of society through reducing energy and food subsidies, support for the agricultural sector, ending the guarantee of 'social employment' and limiting employment in the public and state-owned sector, and attempts to limit free education and health care. The ruling elite would not only refuse to take any part in the cost of this adjustment, through paying taxes for instance, but would actually expand its share in the economic pie by exploiting any new possible opportunities for profit.

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<sup>2</sup> Syrian Arab Republic: 2005 Article IV Consultation - Staff Report; and Public Information Notice on the Executive Board Discussion, International Monetary Fund, Washington, DC.

Indeed, crony capitalism reached its peak during the 2000s. This was accompanied by the emergence of a new generation of 'regime businessmen' who saw fewer benefits in the partnerships with the traditional elite that underlined the rule of Assad the father, especially in the case of the small scale traditional business sector. Most of the business opportunities that emerged as a result of the economic reforms in the 2000s were captured by this group with a smaller role for the some large traditional business families. This new generation saw no need to hide behind the names of business partners and embraced a public economic and social life in a way that was almost unheard off in the 1980s and the 1990s. Members of the key families that represented the regime, many of them young, emerged as key society figures with large range of investments particularly in services, entertainment, media, and with a new highly consumerist approach to public life.

This was reflected in rapid changes in Syrian cities. Due to historical reasons, the traditional Syrian business elite in Damascus and Aleppo maintained a low-profile in regard to public expressions of wealth. The new business elite had a very different attitude and enjoyed showing off its wealth. Anyone who visited the central areas of Damascus in the early 2000s and again in the late 2000s would have noticed a major difference in the city with expensive restaurants and cafes, fancy cars, and luxury shops visible in many of the better-off areas in the capital. Global brands that wealthy Syrians used to travel to Beirut to buy were increasingly available in the high streets of main Syrian cities. This was driven by a rapid expansion of a 'modern business sector' that consisted of banking and finance (which was opened to private investments in the early 2000s), services, real estate development, communication, media, and recreational services with a growing young professional middle class, including many not linked to the regime, benefitting from this by working in these new sectors. Property development, for instance, became a key focus of the new business and economic elites, often in partnerships with Arab investors, leading to rapid expansion of luxury housing and retailing projects, particularly around Damascus, with little attention paid to the growing housing needs of millions of Syrians (Goulden 2011).

One of the largest and most politically controversial examples of this was a real estate development project that was supposed to take place in the central city of Homs, which later became a key centre of protests, and was called 'Homs Dream'. Sponsored by Iyad Ghazal, the governor of the city, who was closely associated with the new political-business elite and was one of the targets of the early protests in 2011, forcing the president to sack him, the project, a joint venture with the Qatari company Addiyar, would have entailed the complete rebuilding of the city centre to transform it into a Dubai-style 'modern' centre.<sup>3</sup> One of the non-built areas in the north-west of the city would have been transformed into 'golf courses, tennis complexes, basketball and football pitches, commercial and residential towers, hotels, and restaurants'. Commenting on this, a key local businessman, a member of this new elite, told a daily Syrian news website that the 'benefits of these investments will be seen by all residents. It does not make sense to grow a tonne of tomatoes in a land that is worth hundreds of millions with other investments'.<sup>4</sup>

<sup>3</sup> A number of videos still available on YouTube (27/05/2013) show entire neighbourhoods being replaced by 'modern' glass skyscrapers, shopping malls, luxury houses and artificial green spaces. See 'Governor Iyad Ghazal outlines his 'Dream of Homs'', Wikileaks, Viewing cable 10DAMASCUS93, <https://wikileaks.org/cable/2010/02/10DAMASCUS93.html>

<sup>4</sup> 'The Governorate of Homs and Qatari Group Addiyar Signs an Agreement for a number of Investment', Syria-News, 11/5/2007.

Crucially, 'Homs Dream' and similar projects did not only create negative reactions amongst poorer segments of the population but also among traditional middle income and smaller businesses who felt that they were increasingly threatened by this alliance between the state and large local and regional capital. Property owners and traders in Homs were highly vocal against this project and organised protests and petitions to the president to stop it.

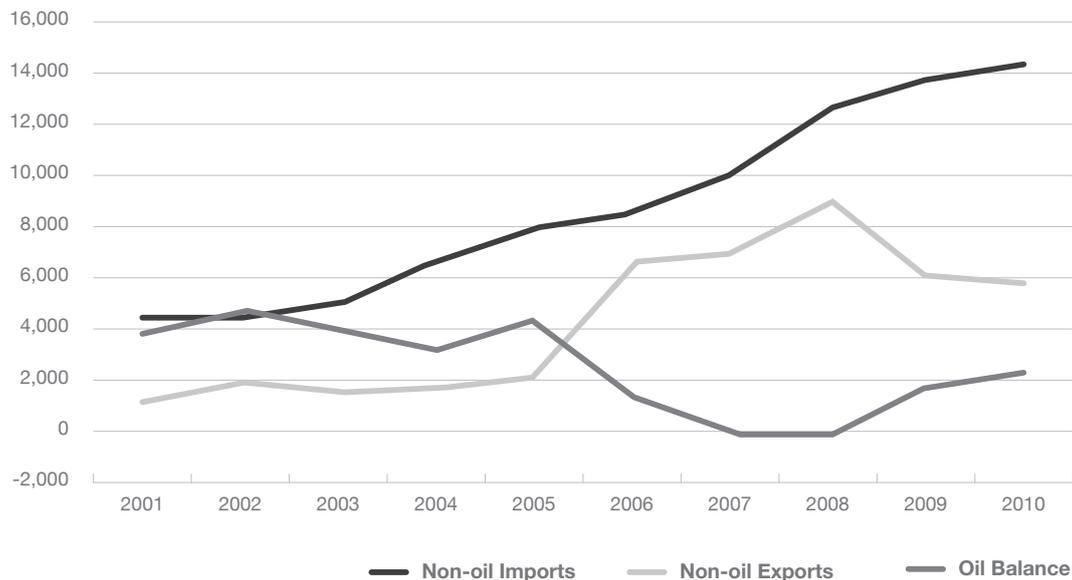
The rise of this new business class was not only unpopular with ordinary Syrians but also with other private businessmen who were key supporters of the regime. Many of the traditional business families saw the rise of 'regime businesses' as causing a further decline in their power and position. They supported the economic reforms which were creating opportunities for wealth but disliked the fact that most of these opportunities were being snapped up by regime insiders. The regime's solution to this was to widen the benefits of these new projects through the creation of holding companies.

The most important of these was Cham Holding which was supported directly by Bashar Al-Assad and brought more than seventy of the largest businessmen in the country together, mainly a combination of 'regime businessmen' and traditional business families. The company, however, was chaired by Rami Makhlouf, a cousin and a close friend of Bashar, who owned more than half of the company but promised that all his new projects would take place through Cham Holding rather than individually promising the other businessmen a share in the profit.<sup>5</sup> The new social base of the regime was fast becoming more visible. It consisted of a group of regime insiders and their business partners with a new urban and growing young professional class working in highly paid jobs in the new economic sectors that were being opened up, particularly services, retail, entertainment and recreational services, real estate, and finance. This group has largely remained loyal to the regime during the civil war (Haddad 2012).

One of the outcomes of these shifts was that the new Syrian business and political elite developed a new perspective on the global economy. With little interest in industrial and agricultural activities, this new elite considered regional and global integration as a way of creating more opportunities in services, real estate, finance and banking, imports of luxury products, and tourism, and to enter partnerships with regional business groups. With the decline in the political voice of sectors that benefitted from a degree of protection such as light manufacturing, food products, textile and clothing, a process of relatively fast trade liberalisation took place in the 2000s. This led to a rapid influx of imports to the country with non-oil imports increasing dramatically from USD 4.3 billion in 2001 to USD 14.1 billion in 2010 (Figure Two). A temporary solution to this imbalance came through the Iraqi market and the rapid growth of Syrian exports following the invasion of Iraq in 2003. While this provided a degree of balance to Syria's deteriorating trade position, it was unlikely to provide a long term solution. The global economic crisis toward the end of the decade was also a factor in worsening the trade imbalance through a drop in non-oil exports. Between 2008 and 2010, the non-oil trade deficit widened from USD 3.5 billion to USD 8.5 billion. The oil trade surplus was incapable of sustaining such an unbalanced trade position.

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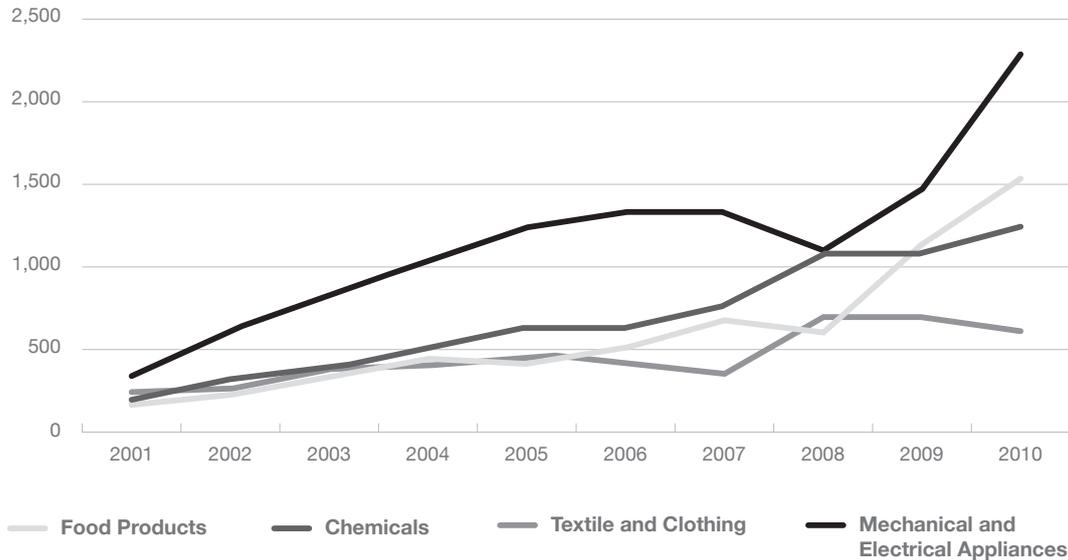
<sup>5</sup> Al-Iqtissady, Guide to Companies, Cham Holding.

**Figure Two: Syria's Trade Balance, 2001-2010, USD million**

Source: UN Comtrade, reporter: Syria

While an increase in remittances, tourism, and financial flows enabled Syria to maintain a relatively stable macroeconomic position during this period, the social impact on some areas in Syria was devastating, and was almost completely overlooked by policy makers. Small producers of food products, textiles and garments, footwear, furniture and other similar products were failing to compete in the local market, especially against Turkish (following a free trade agreement with Turkey in 2007) and Chinese products (Figure Three). At the same time, three decades of isolation from the world economy meant that those producers had limited knowledge of the shifts in the way such products are produced and traded globally and found it extremely difficult to relink with the global production networks of these products. This social impact was seen mostly in areas where such industries were concentrated and from where most of the labour force in these sectors was drawn. Poorer towns on the outskirts of Damascus and Aleppo were hit hard the most by these shifts.<sup>6</sup>

<sup>6</sup> Providing data to substantiate these trends is very difficult due to the limited available data and to the general unreliability of official data.

**Figure Three: Syrian Imports of Key Product Groups, 2001-2010, USD million**

Source: UN Comtrade, reporter: Syria

A second area where the collapse of the social and economic base of the regime was taking place was the rural areas that originally provided the key support base for the Ba'th party. The rapid population growth in those areas and the inability of the agricultural sector to absorb a growing labour force was a factor in this. In the 2000s, this was deepened by the government's decision to limit the high cost of maintaining the social-economic formula. Reflecting the new political-economic orientation of the regime and its changing social base, reducing the cost of energy, input, and food subsidies and the cost of 'social employment' in the public sector, which represented a way to absorb rural-urban migration, was considered to be the solution to the growing economic problems. One policy in this was the liberalisation of the prices of agricultural products that the state used to guarantee. Another, perhaps more important measure, was the sharp reduction in energy and input subsidies to the agricultural sector, particularly in the period 2008-2009.

While reforming the subsidies system was indeed needed, the manner and the timing could not have been worse. In the period 2006-10, parts of Syria experienced a drought that had a major negative impact on the agricultural sector. Rather than providing support to deal with the crisis, the government worsened the situation through ill-prepared policies that affected the sector (de Châtel 2014). Ironically, the major social and economic impacts of these shifts in rural Syria were observed by representatives of international organisations more than by a political party which was still claiming to represent 'workers and peasants'.

In 2008, the US Embassy in Damascus briefed Washington on a meeting with Syria's Representative at the United Nations Food and Agricultural Organisation (UNFAO)<sup>7</sup>:

UNFAO Syria Representative Abdullah bin Yehia briefed econoff and USDA Regional Minister-Counselor for Agriculture on what he terms the 'perfect storm', a confluence of drought conditions with other economic and social pressures that Yehia believes could undermine stability in Syria. What the UN is trying to combat through this appeal, Yehia says, is the potential for 'social destruction' that would accompany erosion of the agricultural industry in rural Syria. This social destruction would lead to political instability, Yehia told us. Another factor at play, according to Yehia, is the rising cost of diesel fuel in Syria, as the SARG [Syrian Government] continues to reduce subsidies. This translates into rising production costs, providing an additional disincentive for small farmers to maintain their holdings.

The government was completely out of touch of these issues and its only solution was promises of growth that would come as a result of integration in the global economy. Through most of the 2000s, the cornerstone of Syria's economic strategy was attracting foreign direct investment. While there was growing foreign investment in Syria in this period, the majority of this came from the Gulf states and was concentrated in tourism, real estate development and finance with limited investment in infrastructure, modern agriculture or industry. Furthermore, the plans for attracting investment were extremely unrealistic considering the economic situation in Syria and globally.

In 2010, the government announced that Syria would attract USD 2.5 billion in FDI in 2010 and that the country, which had a total GDP of USD 40 billion in 2007, needed to attract USD 55 billion in the coming five years.<sup>8</sup> This was translated into constant announcements of new investment projects in Syria, many of which never materialised. Another project that was promoted was the 'four seas' vision which aimed at linking Syria with neighbouring countries in order to make Syria the trade, infrastructure, and energy hub linking the Black Sea, the Mediterranean Sea, the Persian Gulf/Arabian Sea and the Caspian Sea. At a time in which millions of Syrians were facing a serious deterioration in their living standards, a government that was only concerned with FDI and regional trade integration was clearly detached from the urgent problems facing the country.

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<sup>7</sup> Published by Wikileaks, 'A letter from the US Embassy in Damascus', 29 November 2008.

<sup>8</sup> 'Syria Aims to Attract \$55 Billion in Foreign Investments Over Five Years', Bloomberg, September 24, 2010.

## The Socio-Economic Nature of the 2011 Protest Movement

These shifts in the political economy of the Ba'th party and the growing change in the social base of the regime were becoming visible toward the end of the 2000s. While establishing a clear line of causality between this and the protest movement that began in 2011 is difficult, the socio-economic shifts that affected the poorer segments of the Syrian society, particularly in rural and peripheral urban areas, provided the background that contributed to the expansion of the protest movement in these areas. The first city in which protests broke out in Syria, the southern city of Dar'a, provides a good example of this. Dar'a is a largely agricultural governorate that has historically provided an important support base for the Ba'th regime. This was (and to an extent is still) reflected in high representation of Ba'th members from the region in senior government positions. Nonetheless, the combined impact of government policy, especially on the agricultural sector, the failure of the new economic policies to produce growth and create jobs in the region, the growing unpopularity of the new 'crony capitalist' regime and the higher real and perceived income inequality in the country have all contributed to a substantial decline in the acceptance of the earlier political and socio-economic compromise.

This was seen in the early days of protests in the city in which the key symbol of this crony capitalist regime, Rami Makhoul, was a target of chants from protesters in addition to attacks on the offices of his mobile phone company, *Syriatel*. Similar resentment toward the local and national symbols of this new political economic elite was also seen in other areas that witnessed protests in the early days of the uprising. One of the responses of the regime in this period included rather unconvincing attempts to show that some of these figures would no longer play an influential role in political and economic life, including Makhoul announcing that he would quit businesses and dedicate his wealth to charity.<sup>9</sup>

The income and rural-urban divide in the geography of early protests was very clear with most of the protests taking place either in rural parts of the country or in poorer urban neighbourhoods which often had high number of rural migrants. Middle income neighbourhoods, particularly in the two main cities of Damascus and Aleppo, remained largely quiet during this period, reflecting either direct interest in the survival of the regime, in the case of people benefitting from the economic system directly or through employment in the new sectors controlled by the new elite, or a general caution of the cost of a confrontation with the regime, in the case of other middle income groups including those that were not benefitting from the new ruling alliance in the country.

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<sup>9</sup> 'Assad's tycoon cousin, target of protesters, quits', Reuters, June 17, 2011.

Nonetheless, this socio-economic dimension fails on its own to explain the geography of the protest movement and the subsequent armed rebellion in Syria. In many areas, the regime crackdown on relatively small early protests was a key factor in de-legitimizing the regime and in transforming its armed forces into occupying forces in these regions. Another important factor in this is the religious/sectarian element.

Whilst beyond the scope of this paper, this element was crucial to allowing the regime to maintain control over key areas in Syria, including some of the rural areas and, perhaps more importantly, to maintain a supply base of fighters that are willing to fight for the survival of the regime. This supply base of fighters was almost completely from poor rural backgrounds that are often from the same areas or adjacent villages to protesting areas, but are from different religious, sectarian, and in some case, tribal groups.

## Conclusion

The Syrian uprising has been described as a rural and urban uprising, reflecting the concentration of protests in rural areas and in the outskirts of the main cities with a high degree of rural-to-urban migrants. This was also reflected in the very weak protest movement in middle income urban neighbourhoods, particularly in the two big cities of Damascus and Aleppo.

The explanation for this socio-economic nature of the protest movement, this paper has argued, requires a look at the socio-economic formula that underlined Ba'ath rule of Syria for more than three decades and how the economic and social shifts that began in the 1990s, and intensified in the 2000s, led to the erosion of the political and socio-economic compromise on which the political regime in the country was based. The complete one-party and increasingly one-family dominance over politics was accepted by a large number of Syrians because of a mixture of factors including external political factors, the cost of confrontation with the regime and a socio-economic system that limited absolute poverty and inequality in the country. This economic system was a combination of a state-led economy with some space for mostly small private sector businesses that benefitted from trade protectionism to control the local market. For rural and poorer urban parts of the country, this formula included a substantial subsidies system on food, energy, and agricultural inputs, free health-care and education, and employment opportunities mainly in the public and state-owned sector. The cost of this system was mainly covered in the 1980s and the 1990s by the oil surpluses, reflecting the weak contribution of private taxation to the budget.

However, the growing cost of this system and the decline in its external funding, especially as a result of diminishing oil surpluses (not only a decline in production but also an increase in consumption, often at subsidized prices) made it clear in the early 2000s that this economic model was unsustainable. Syria increasingly resembled an oil-exporting political and economic system but without the oil. A major political and economic shift in the country was required to deal with this transformation and to distribute the costs of adjustment across different social groups in a relatively fair manner. This, however, would have required the end of the political and economic dominance of a small group of regime insiders and their business partners. Instead, the regime opted to consolidate its political and economic power further, moving the country into a crony capitalist system. This was not intended to deepen the alliance between the security and military regime and parts of the business community, but was rather a move to merge the two into one, all-powerful ruling elite.

Rather than attempting to limit corruption and enforce taxation on the economic activities of this new elite, the cost of the economic restructuring needed was to be borne completely by poorer segments in society through ending the key elements of the earlier social compromise, particularly the subsidies system, employment in the public sector, and also attempts to limit free education and healthcare. In many cases, these issues were dealt with in a very rushed way and with a very top-down policy approach with no representation of the groups that were affected by these changes. The restructuring of the subsidies system on energy, agricultural inputs, and the state purchase guarantee and pricing of some agricultural products, for instance, took place at a time when large parts of the country were facing a severe drought, resulting in a complete economic and social collapse in some areas.

The new elite had a completely different outlook on the position of Syria in the regional and global economy. With little interest in the 'traditional' sectors in the economy, such as industry and agriculture, the new elite sought integration in the regional and global economy partially as a hopeful solution to the structural economic problems the country was facing, but also as a way of maximising self-interest through partnerships with regional capital in areas such as real estate development, finance and banking, tourism, imports of luxury goods, and recreational services. Indeed, the 2000s witnessed a rapid increase in such activities, resulting in the emergence of a new class of young professionals in a number of Syrian cities and in very visible transformations in middle income areas in these cities.

The rapid integration in the regional and global economy was again highly rushed with very limited regard to the impact on other segments of the economy, particularly the small manufacturing sector that maintained its position in the local market thanks to trade barriers. The result was an economic shock to economic sectors that had played an important role in the economic development of Syria, but found they were incapable of competing in a global marketplace, leading to a major negative impact on smaller businesses and producers in sectors such as textile and garments, food-products, furniture, and simple electronics. Most of these activities were located on the outskirts of Damascus and Aleppo with most of their labour force drawn from poorer towns surrounding the two cities.

The political regime not only failed to deal with these issues and their social impacts but appeared completely out of touch, refusing to widen the political process to allow those negatively affected by these shifts to have a political voice. Instead of addressing the structural problems facing the Syrian economy, designing specific trade and industrial policies that would help Syrian economic sectors to compete and expand in a changing regional and global marketplace, and social policies that would help those affected negatively by these shifts, top officials were busy promoting unrealistic dreams about Syria becoming a key regional economic hub and a linking point between the 'four seas'. Most of these 'plans' were based on an extremely weak understanding of the global economy and the dynamics that underpin the movement of capital and product flows in today's economy. The outcome of this was a political regime that was completely incapable of either understanding or addressing the serious challenges Syria was facing. The spread of the 'Arab Spring' to Syria was only a matter of time.

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## Forthcoming Publications

### **Will the Real Palestinian Peasantry Please Sit Down? Towards a New History of British Rule in Palestine, 1917-36**

Dr Charles Anderson, Georgetown University

This paper forms part of a broader argument for a history from below of Arab society under the Palestine Mandate. By reexamining the political economy of the countryside under the first 18 years of British rule and the responses of peasants and ex-peasants to the escalating pressures they faced, it contends that greater attention to the history of the rural majority has much to teach us. In tandem, it advances an analysis of the Mandatory regime as a liberal despotism, the policies of which consolidated the emergence of a 'landless class' that ultimately rose against it during the multifaceted rebellion known as the Great Revolt (1936-39).

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### **Iran's 11<sup>th</sup> Presidential Election 2013 and its Consequences**

Professor Ali Ansari, University of St Andrews

The first round election victory of Hasan Rouhani in the 11th Presidential elections of the Islamic Republic of Iran, took many observers by surprise. It was important for the regime and for the Supreme Leader Ayatollah Khamenei in particular to manage a successful election, in order to remove the deep political stain of 2009, and restore a measure of legitimacy, not only domestically, but also in the eyes of the international community. For this a high turnout and a clean process were vital. The public elation that followed Rouhani's victory has tended to disguise the often complex and fraught political negotiations that facilitated the election. It says much of the depth of the despair that the emotional rebound has been so uncritically enthusiastic but it is also a reflection of the opaqueness of the political process that commentators - both inside and outside Iran - have rushed to reimagine and rationalise the past in an effort to explain the present and reinforce (or justify) the enthusiasm which they now feel.

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